



HONG KONG MONETARY AUTHORITY

**Briefing to the Legislative Council
Panel on Financial Affairs**

18 October 2021

[Translation]

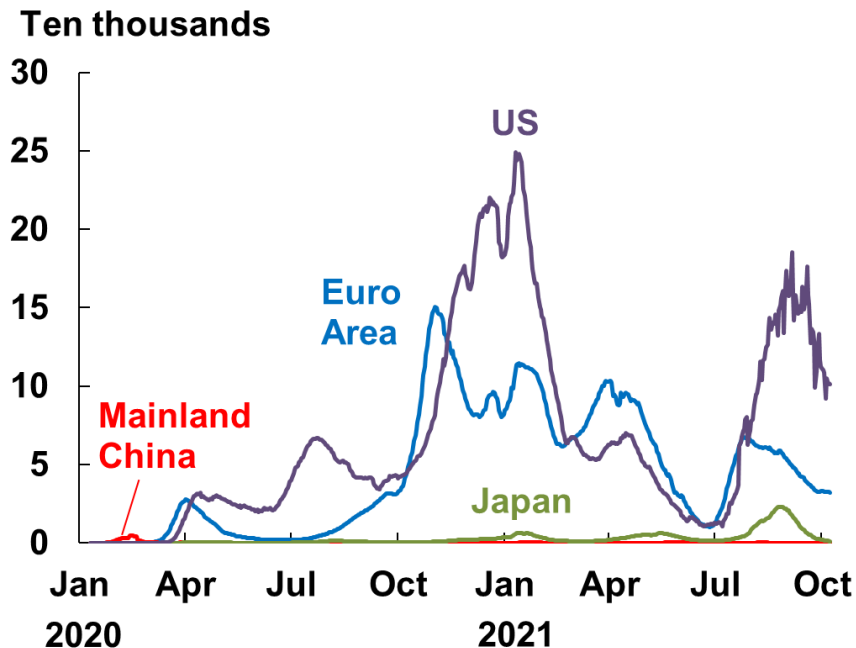


- 1. Assessment of Risk to Hong Kong's Financial Stability**
2. Banking Supervision
3. Development of Financial Market
4. Financial Infrastructure
5. Investment Performance of the Exchange Fund
6. Hong Kong Mortgage Corporation



VIRUS VARIANTS BRING UNCERTAINTY TO GLOBAL ECONOMY

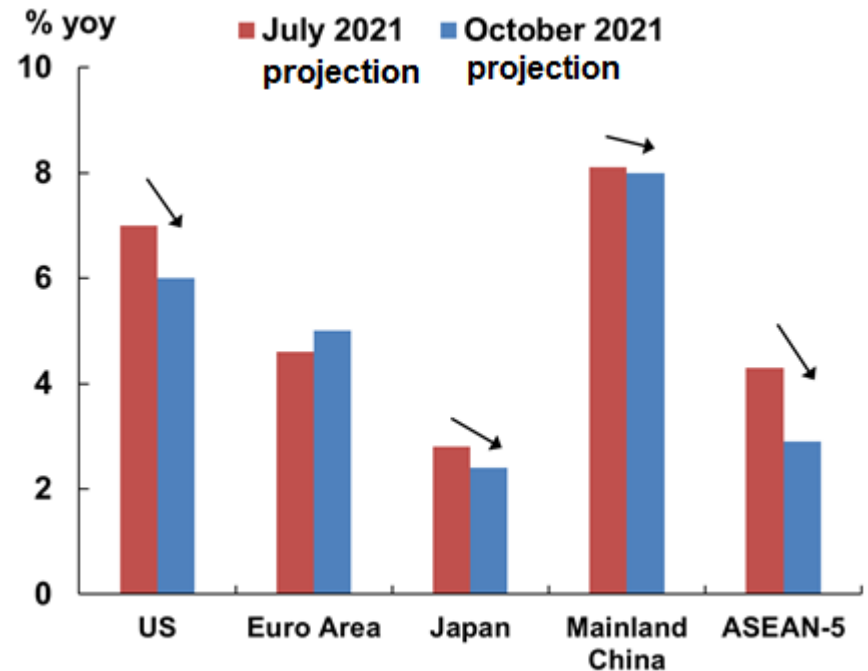
Variants cause a resurgence in COVID-19 infections



Note: Shown in this chart are the 7-day moving averages of infection cases.

Source: World Health Organisation

Downward revisions to this year's growth projections for some economies



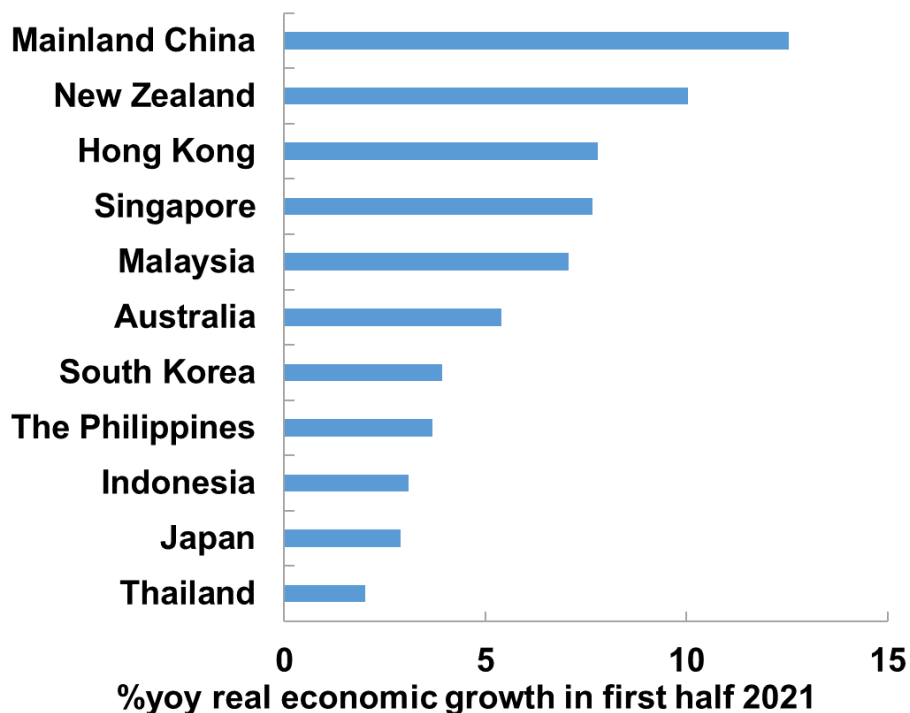
Note: ASEAN-5 refers to Indonesia, Malaysia, Philippines, Thailand and Vietnam.

Source: International Monetary Fund



UNEVEN PACE OF RECOVERY IN ASIA-PACIFIC

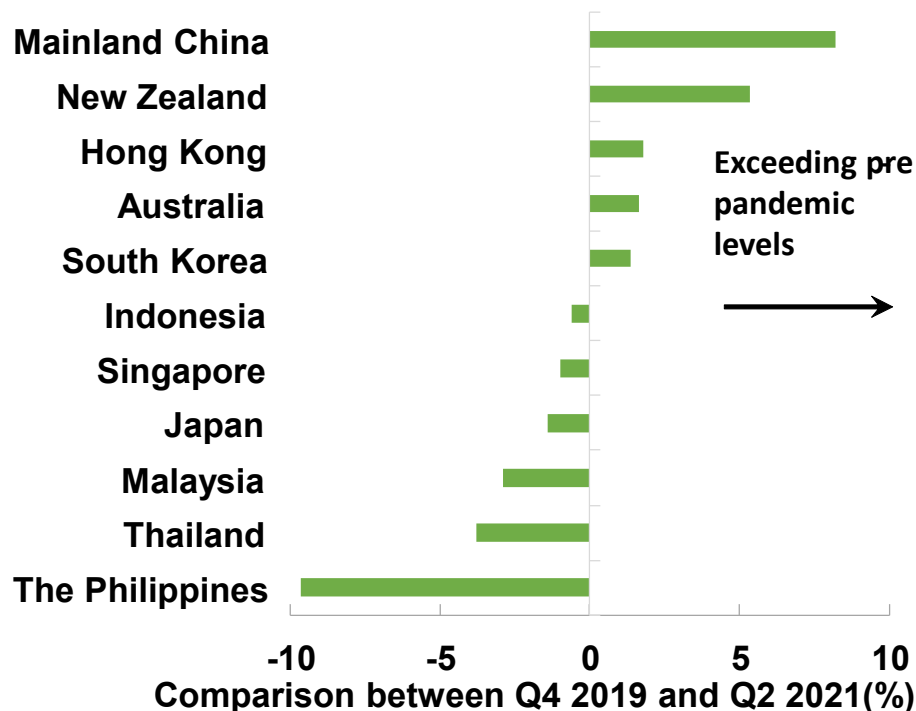
Asia-Pacific economies generally recovering in first-half of 2021



Note: Figures refer to GDP in the first half of 2021.

Source: CEIC

Some have yet to return to pre-pandemic levels



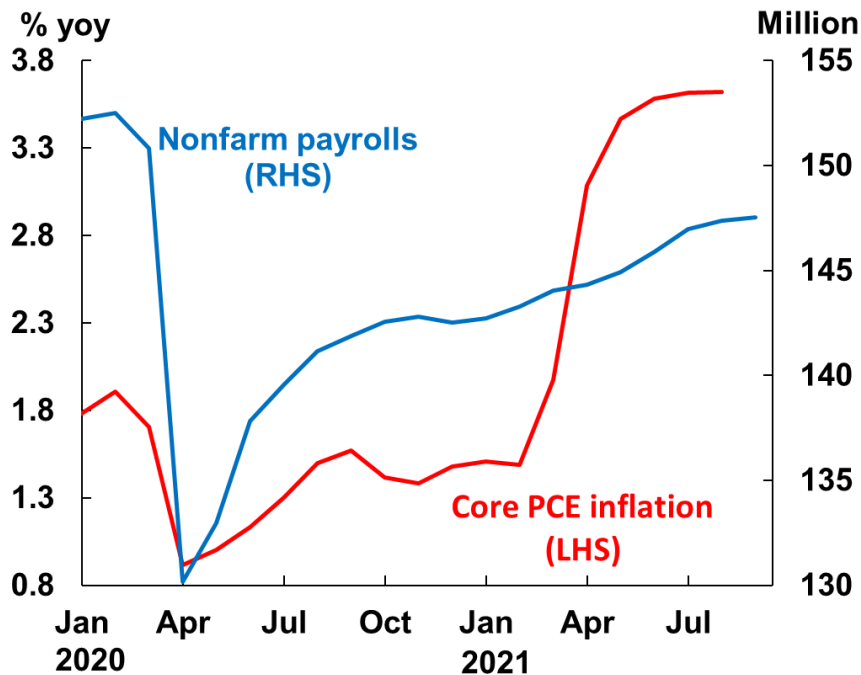
Note: Figures refer to GDP in Q2 of 2021.

Source: CEIC and HKMA staff calculations.



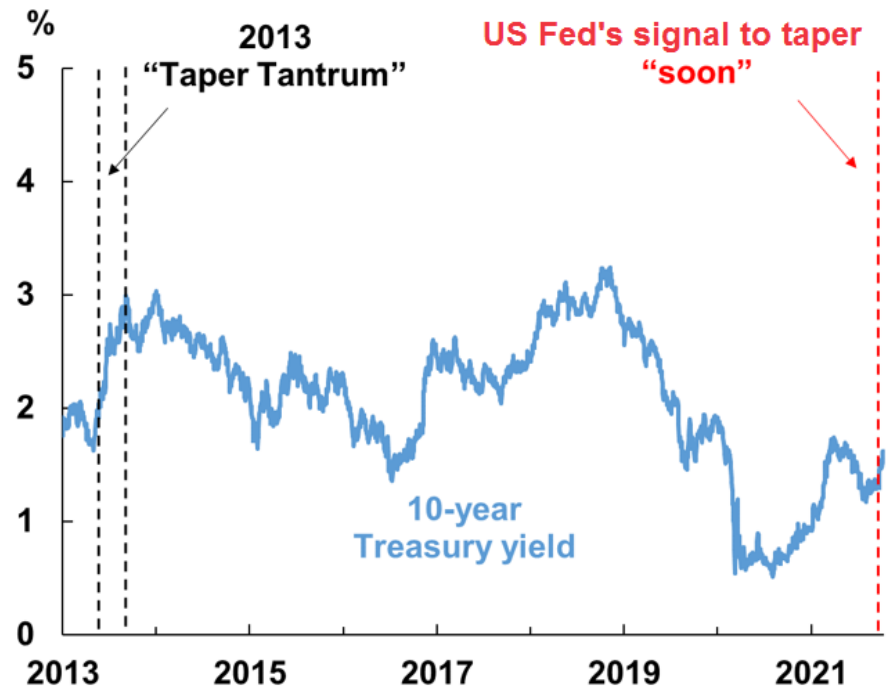
US FED TAPERING MAY TRIGGER FINANCIAL MARKET VOLATILITY

Real economy and inflation approaching policy targets



Source: CEIC

QE tapering may trigger bond market volatility

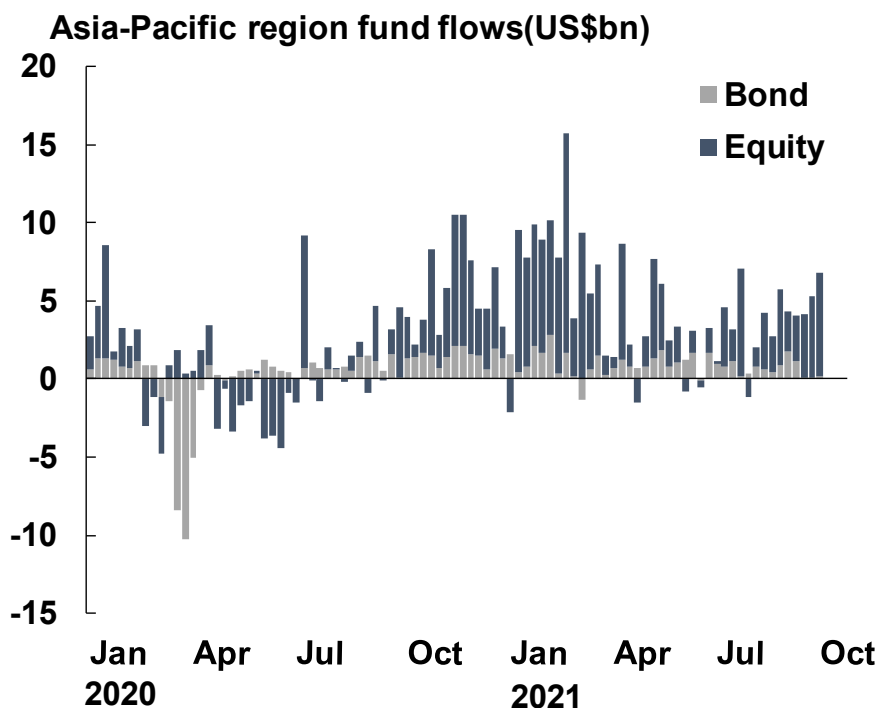


Source: Bloomberg



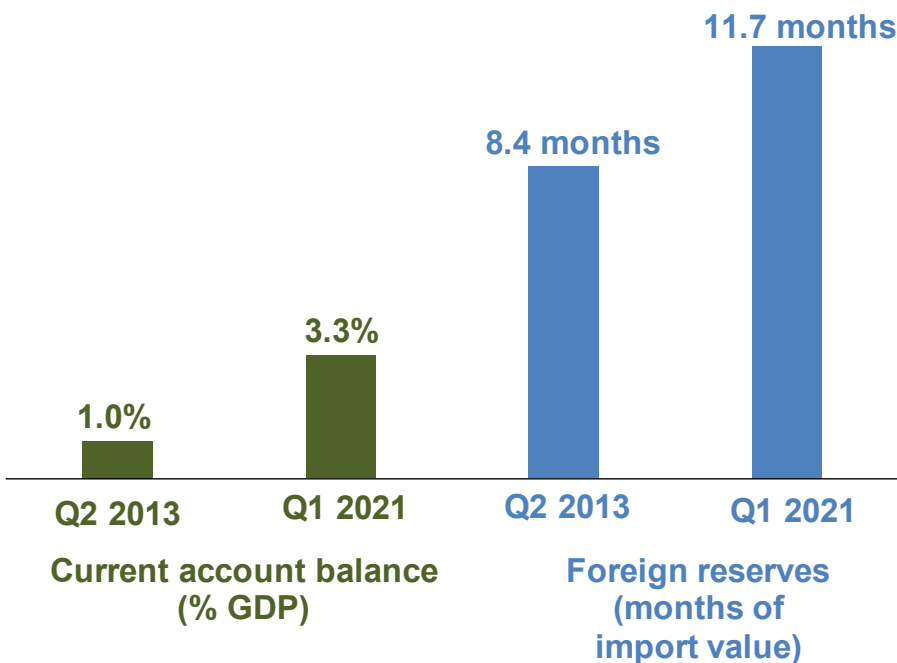
POSSIBLE OUTFLOWS FROM ASIA-PACIFIC BUT IMPACT MAY BE Milder THAN IN 2013

Capital flows may reverse



Source: EPFR

Strong external position
can help withstand impact



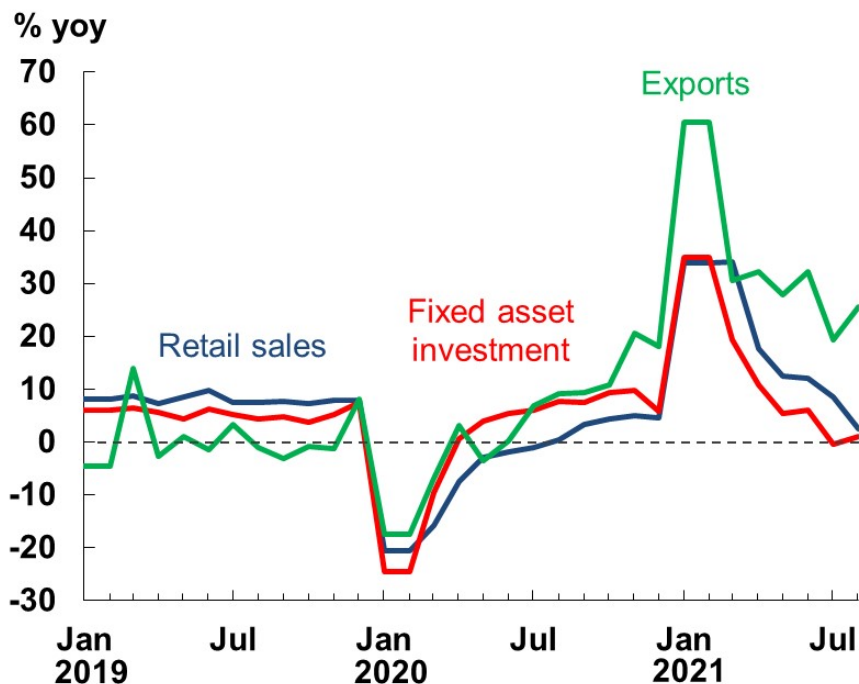
Source: CEIC and Oxford Economics

Note: Asia-Pacific region includes Mainland China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Thailand, Australia and New Zealand.



MAINLAND GROWTH SOFTENS BUT MEDIUM-TO-LONG TERM TREND STABLE

Pace of growth softens under pandemic



Source: National Bureau of Statistics of China and HKMA staff estimates

Economic outlook and policy measures

Economic outlook

- Domestic demand continues to recover but pandemic situation may fluctuate
- Sectors with deleveraging in progress will come under pressure in the short term but overall risk is manageable
- Global recovery will continue to support external demand but supply chains have yet to totally recover

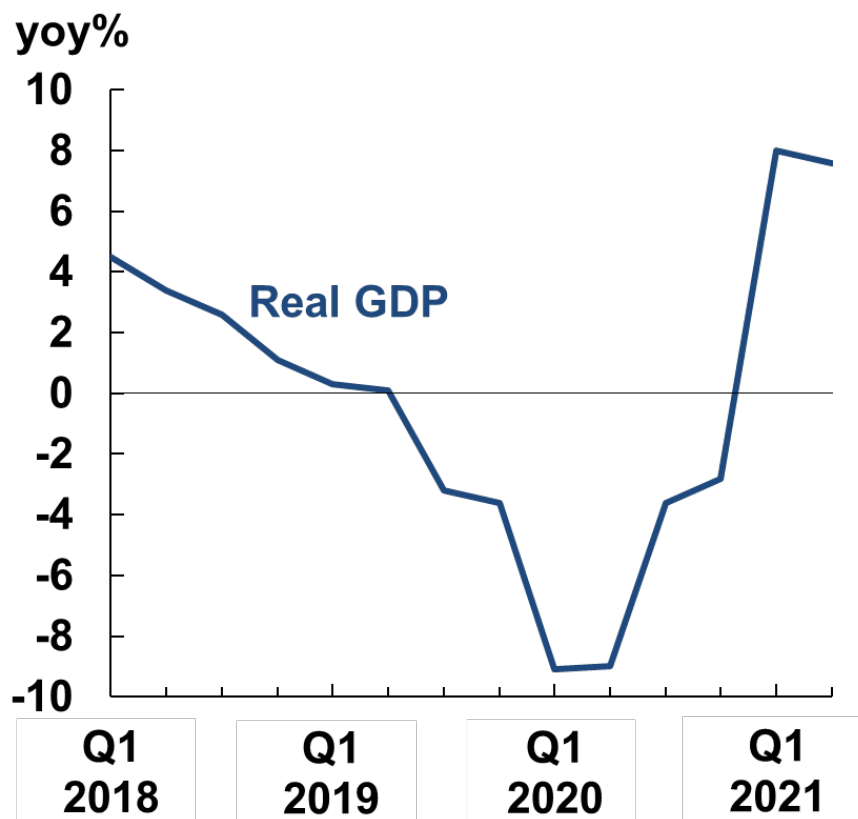
Policy measures

- Continued vigilance against systemic risk
- Robust and responsive monetary policies coupled with active fiscal policies safeguard stable development in the economy



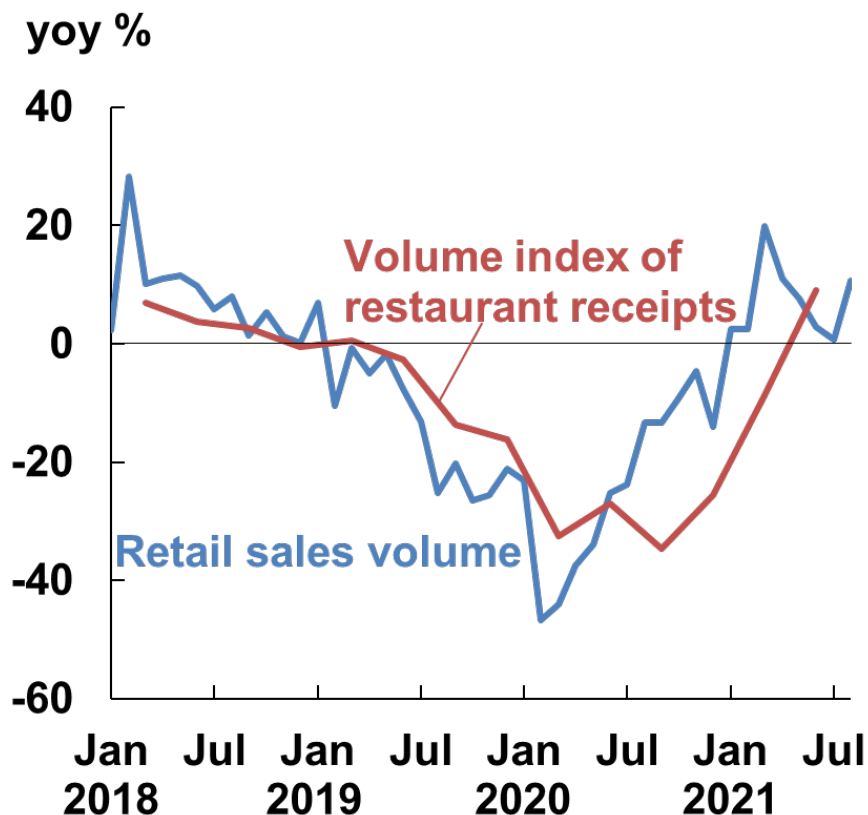
SIGNIFICANT RECOVERY IN HONG KONG IN FIRST-HALF OF 2021

Significant growth in GDP



Source: C&SD

Both retail sales and restaurant receipts stabilise



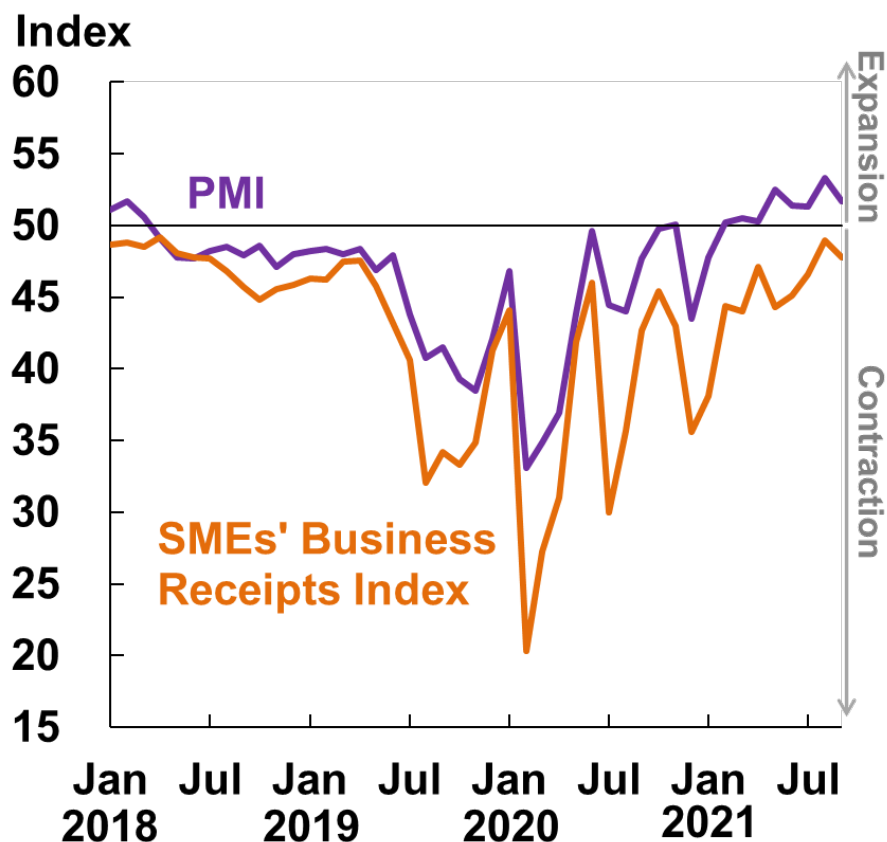
Note: Due to the timing of Chinese New Year and pandemic-related low base effect, January and February 2021 figures were relatively more volatile and therefore combined for analysis.

Source: C&SD



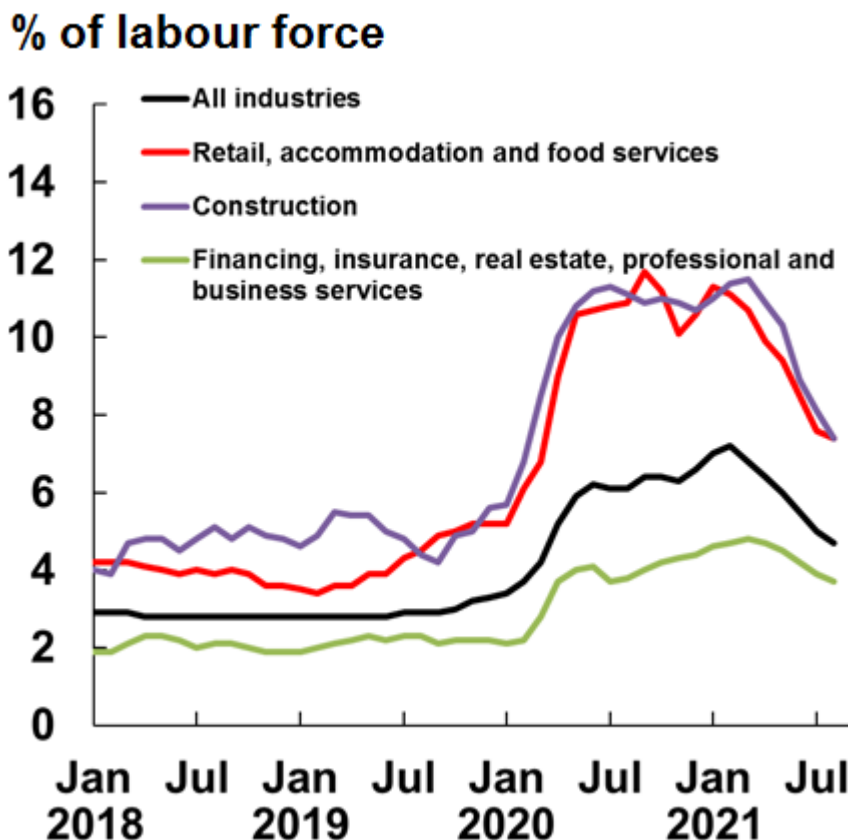
ECONOMY EXPECTED TO STABLISE FURTHER IN SECOND-HALF OF 2021

Business sentiment remains stable



Sources: C&SD and Markit

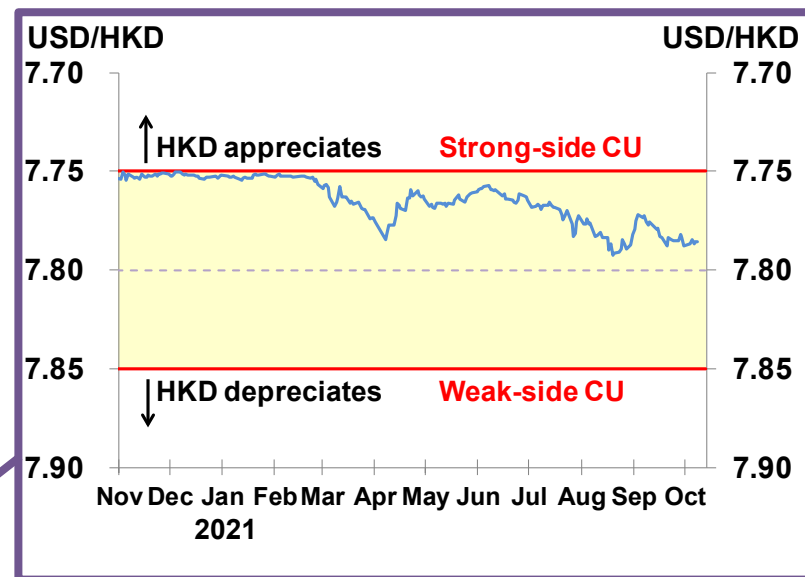
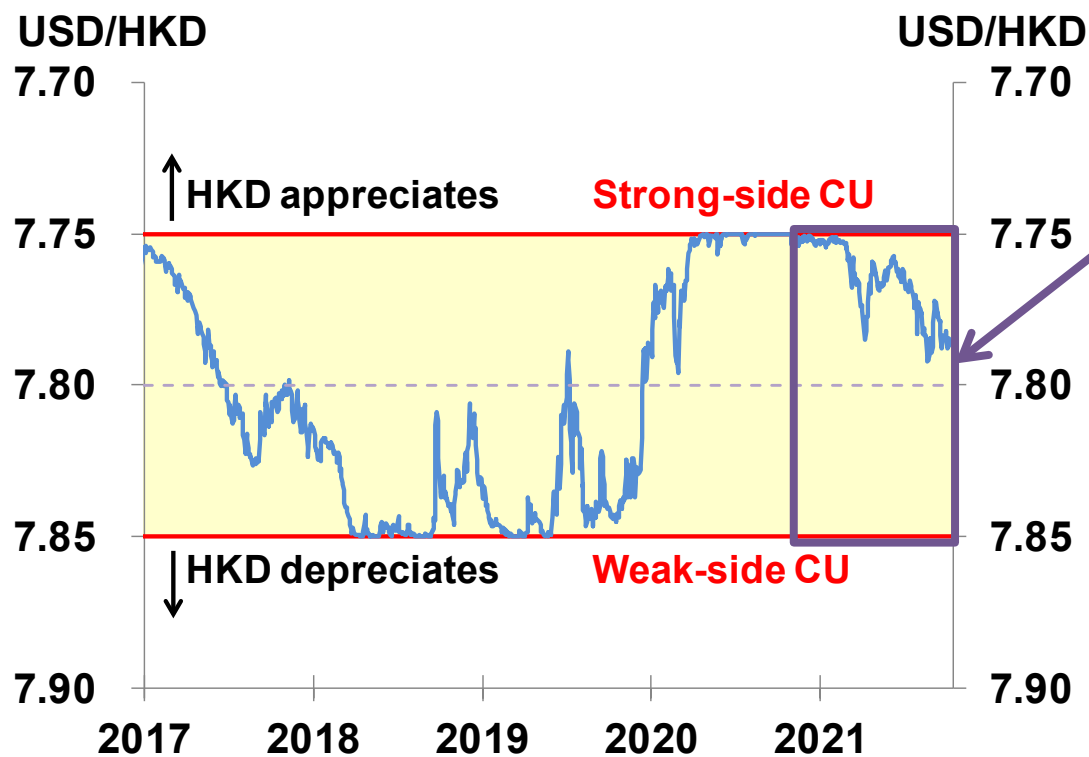
Unemployment rate falls alongside economic recovery



Source: C&SD



ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: HKD REMAINS STABLE



Year	Trigger of Weak-side CU	Outflows from HKD (HK\$ bn)
2018 Apr - Aug	27 times	103.5
2019 Jan - Mar	8 times	22.1

Year	Trigger of Strong-side CU	Inflows into HKD (HK\$ bn)
2020 Apr	6 times	20.7
2020 Jun - Oct	79 times	362.8



ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: BANK DEPOSITS REMAIN STABLE

Month-on-month change (%)

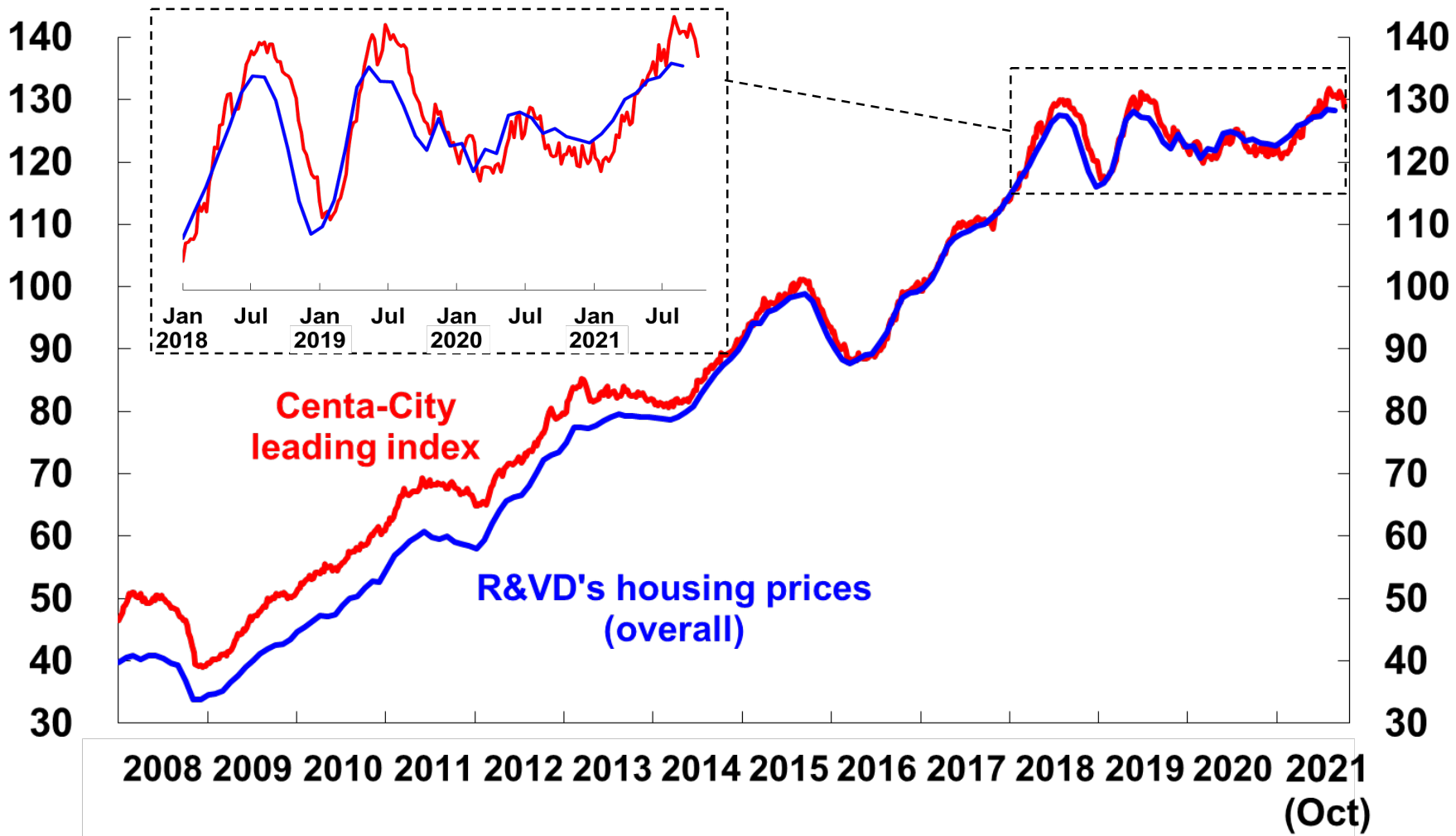
	Total deposits[#]	Hong Kong dollar deposits[#]
April 2021	0.3%	0.1%
May	1.2%	0.8%
June	0.3%	0.7%
July	0.0%	-1.3%
August	-0.1%	-0.3%
Year to end-August	2.7%	2.0%

Excluding the deposits created by IPO-related loans



ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: PROPERTY PRICES RETURN TO RECENT HIGHS

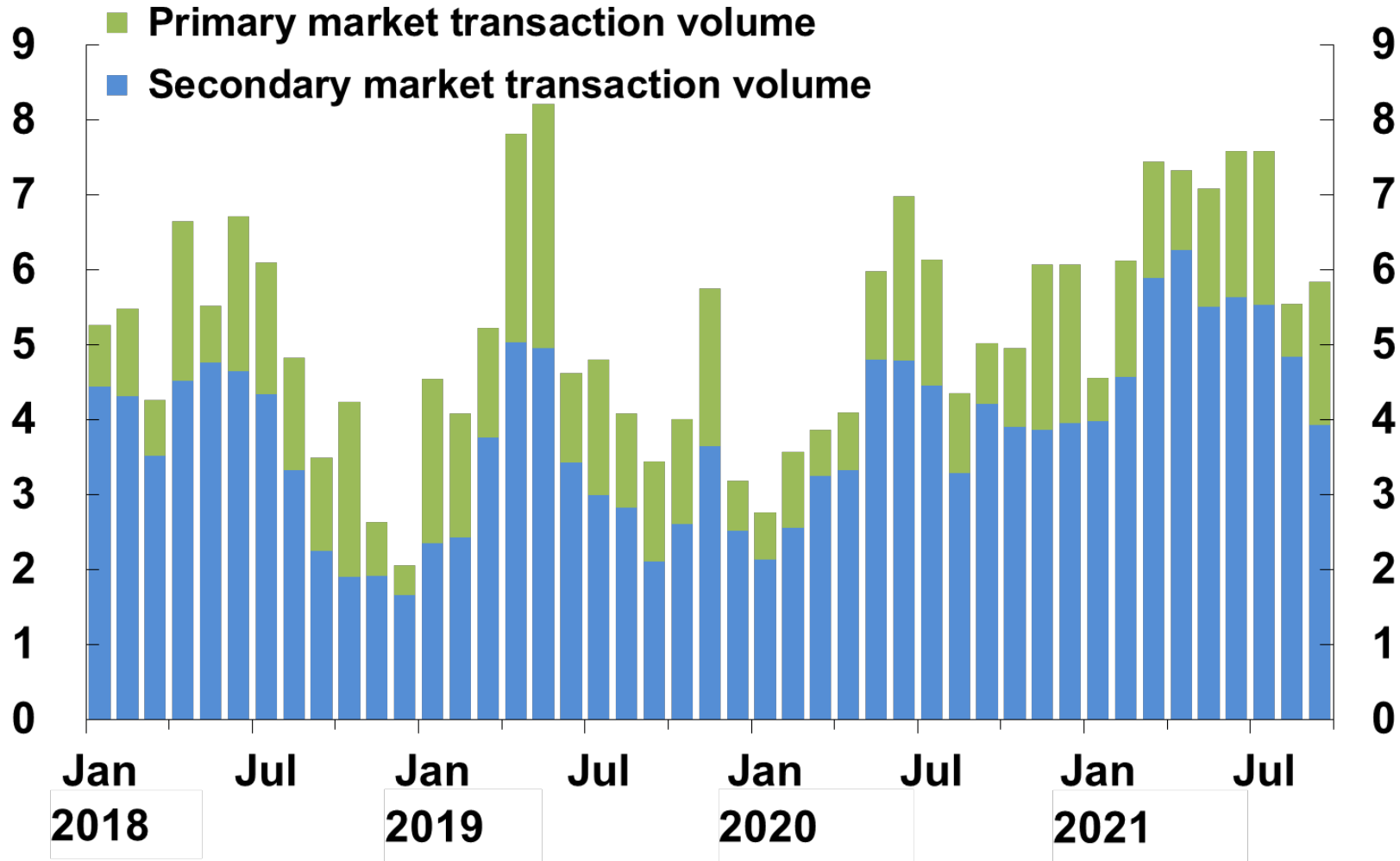
Index
(Jan 2017 = 100)





ASSESSMENT OF RISKS TO HONG KONG'S FINANCIAL STABILITY: SLOWER PROPERTY TRANSACTIONS

Number of transactions ('000)



Source: Land Registry



HONG KONG'S FINANCIAL SECTOR STAYS HEALTHY AND ROBUST

- Global recovery continues but its actual pace is subject to the spread of virus variants and the vaccination progress
- Reduced bond buying by US Fed may trigger capital outflows and dampen recovery in the region, but its impact is likely to be milder than in 2013
- Hong Kong's banking sector is well-supported by abundant capital and liquidity and remains highly resilient
- The HKMA will continue to closely monitor market situation and safeguard monetary stability under the Linked Exchange Rate System
- With potential significant market volatilities ahead, the public should exercise caution in managing their risk exposures

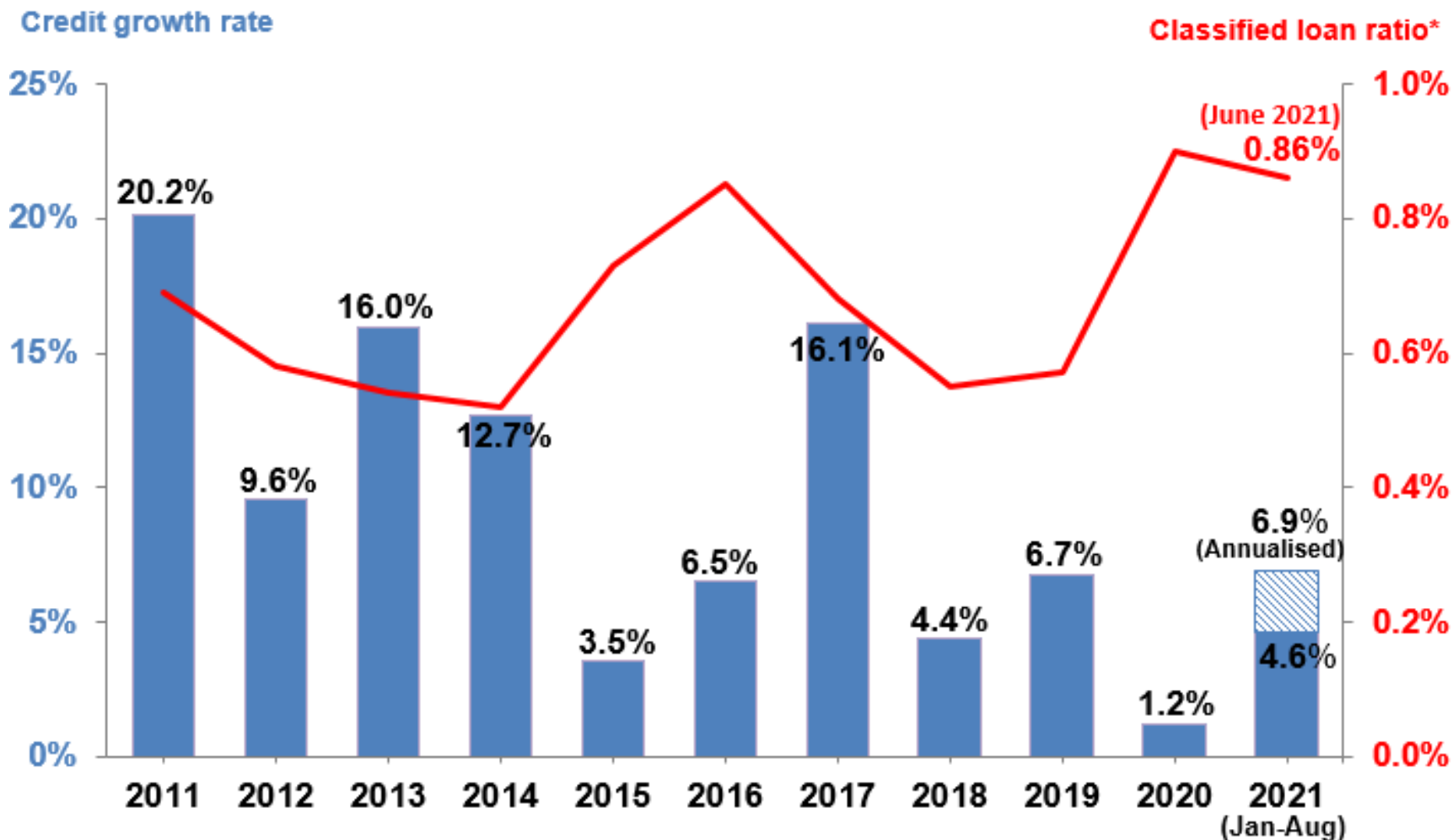


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BANKING SECTOR PERFORMANCE

Credit grew at a moderate pace,
while asset quality remains healthy



Notes: * Classified loan ratio of all authorized institutions

Source: HKMA



FIGHTING THE VIRUS AND SUPPORTING THE ECONOMY

Extended Pre-approved Principal Payment Holiday Scheme

- As announced in September, principal payments of eligible small and medium-sized enterprises to be deferred by another six months till April 2022

Enhanced SME Financing Guarantee Scheme

- Principal moratorium for 80%, 90% and Special 100% Guarantee Products deferred up to 24 months, with application period extended till end-June 2022

Extended 100% Personal Loan Guarantee Scheme

- Application period extended till April 2022

- Aggregate number of cases involving credit relief (up to September 2021):
 - Corporate customers: 77,000 cases (HK\$880 billion)
 - Individual customers: 46,000 cases (HK\$51 billion)



LEGISLATIVE WORK

International Standards

- Basel revised capital treatment on banks' equity investments in funds
 - Q1 2022: Amendments to Banking (Capital) Rules
- Basel III final reforms
 - Q4 2022 & Q1 2023: Amendments to Banking (Capital) Rules
 - Q1 2023: Amendments to Banking (Disclosure) Rules
- Consequential and other technical updates
 - Q1 2023: Amendments to Banking (Exposure Limits) Rules

Resolution Regime

- The Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights — Banking Sector) Rules came into operation on 27 August 2021



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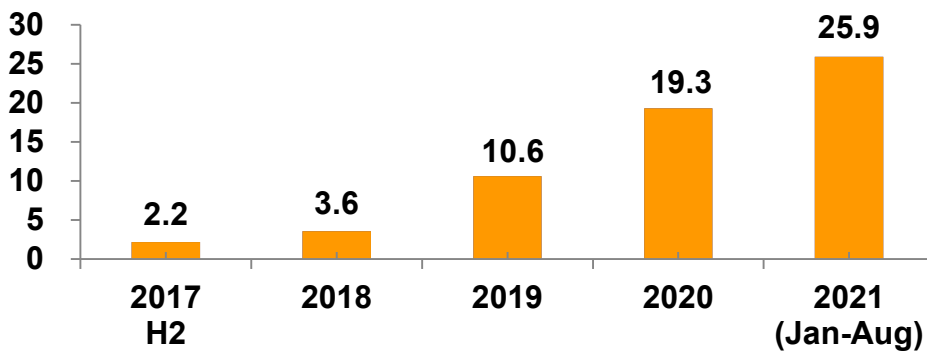


MUTUAL MARKET ACCESS SCHEMES OPERATE SMOOTHLY

- Northbound Trading under Bond Connect continued to thrive against increasing inclusion of RMB assets in global financial indexes

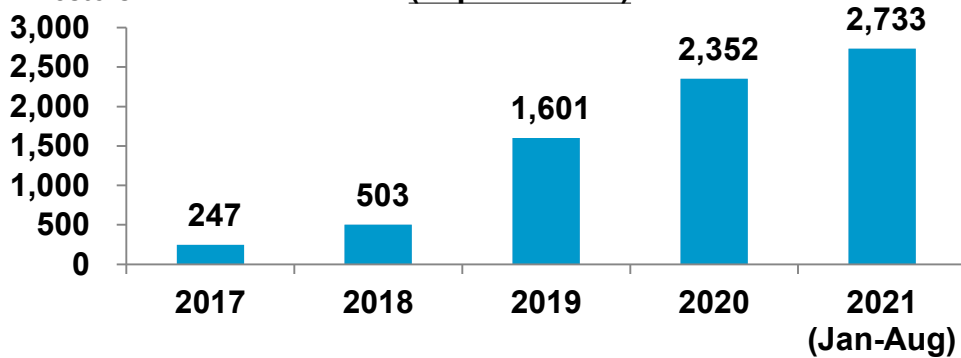
**Northbound Trading
Average Daily Turnover**

RMB bn



**Number of Registered Institutional
Investors
(at period end)**

No. of
Investors



- Southbound Trading under Bond Connect was officially launched on 24 September 2021, providing Mainland institutional investors with a new channel to invest in offshore bonds through Hong Kong
- The HKMA announced the implementation details for the Cross-boundary Wealth Management Connect on 10 September 2021. Banks may start offering relevant services upon completion of the necessary preparatory work



DEVELOPING HONG KONG'S FINANCIAL PLATFORM – GREEN FINANCE

- The Green and Sustainable Finance Cross-Agency Steering Group co-chaired by the HKMA and the SFC announced in July 2021 its next steps, with focus on climate-related disclosures and sustainability reporting, carbon market opportunities, and the Centre for Green and Sustainable Finance which was launched to coordinate cross-sector efforts in capacity building, thought leadership and policy development
- The HKMA is actively working on the next batch of Government green bond issuances including retail green bonds, to promote the development of green finance in Hong Kong
- The HKMA is assisting the Government in administering the Green and Sustainable Finance Grant Scheme, which was launched in May 2021 to attract more green and sustainable financing activities to Hong Kong by covering part of the expenses on bond issuances and external review services. The initial response of the market to this scheme is very positive



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LATEST FINTECH INITIATIVES

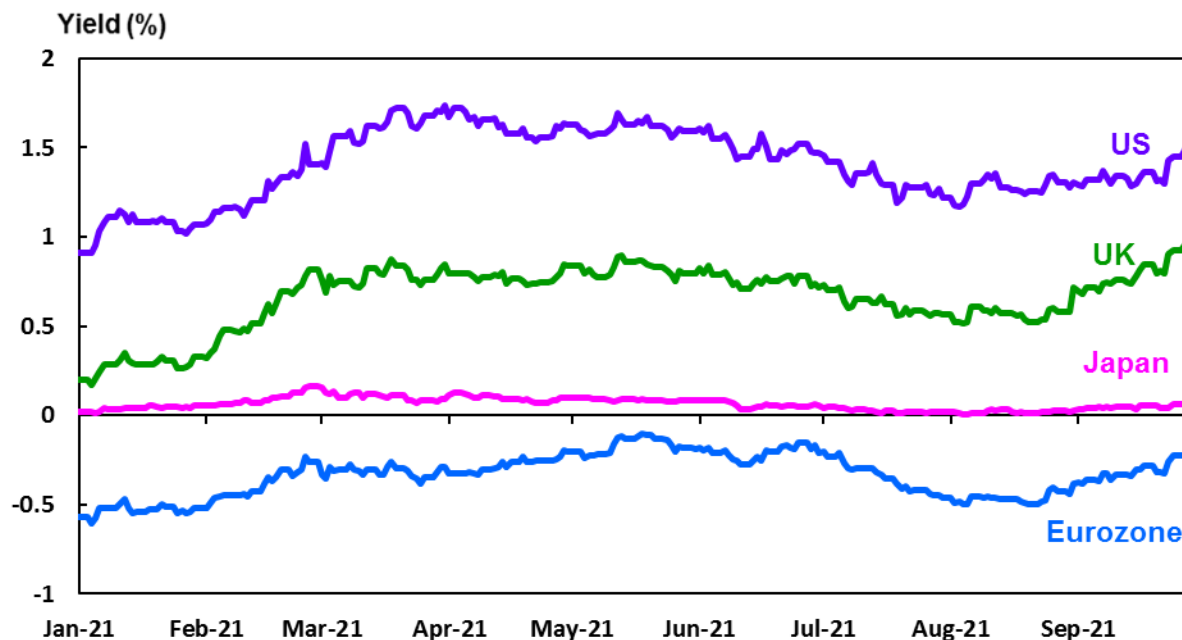
- Unveiled “Fintech 2025” Strategy to encourage the financial sector to adopt technology comprehensively by 2025. The five focus areas of the strategy are:
 1. All banks go fintech
 2. Future-proofing Hong Kong for Central Bank Digital Currencies at both wholesale and retail levels
 3. Creating the next-generation data infrastructure
 4. Expanding the fintech-savvy workforce
 5. Nurturing the ecosystem with funding and policies



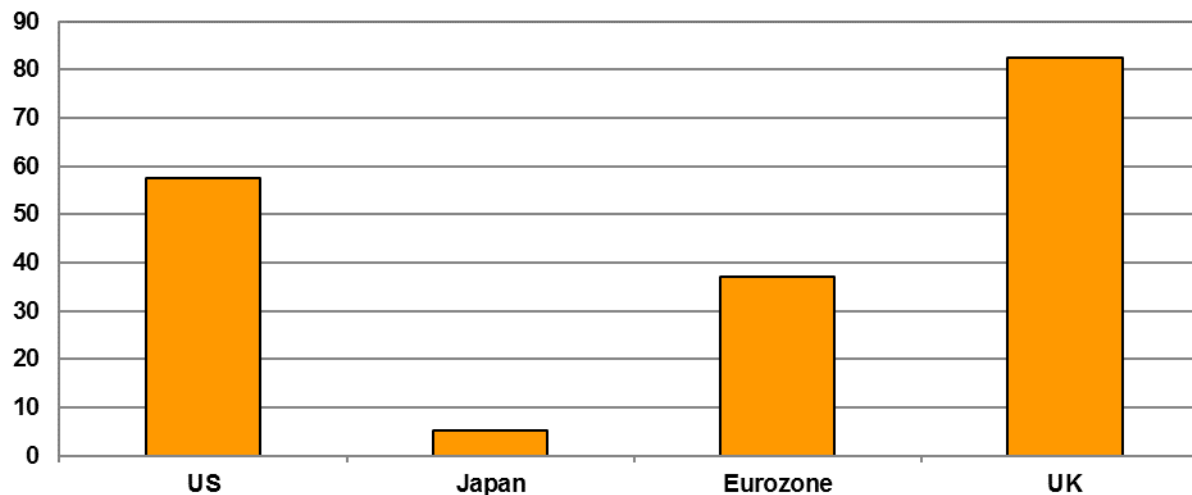
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MAJOR SOVEREIGN BOND YIELDS STEADY



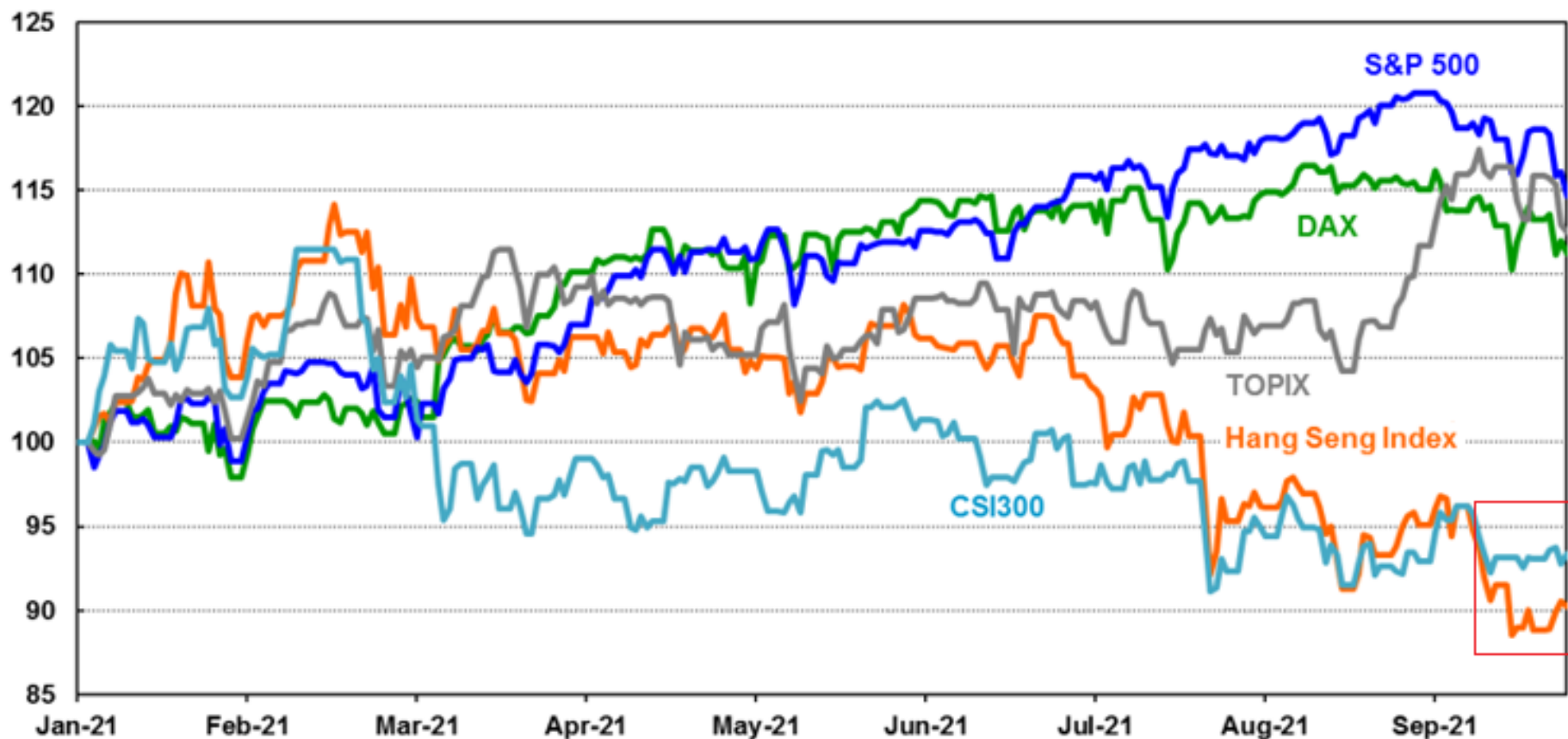
2021 Q1 - Q3 bond yield change (bps)





MAJOR EQUITY MARKETS EXTENDED RALLY WHILE HONG KONG AND CHINESE MARKETS DIPPED

Normalised Index Level (2020 year-end = 100)





INVESTMENT INCOME

← 2021 → 2020 2019

(unaudited)

(HK\$ billion)	Jan - Sep	Q3	Full Year	Full Year
Hong Kong equities*	(13.8)	(26.3)	4.0	22.1
Other equities	45.7	(0.7)	69.9	100.7
Bonds	9.5	8.2	92.7	114.5
Foreign exchange#	8.4	5.6	9.6	(13.0)
Other investments@	76.7	-	59.6	37.9
Investment income/(loss)	126.5	(13.2)	235.8	262.2

* Excluding valuation changes of the Strategic Portfolio.

This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging.

@ Including valuation changes of private equity and real estate investments held under the Long-Term Growth Portfolio. This figure represents valuation changes up to the end of June 2021. Valuations of these investments from July to September are not yet available.



INCOME AND EXPENDITURE

	← 2021 → (unaudited)		2020	2019
(HK\$ billion)	Jan - Sep	Q3	Full year	Full year
Investment income/(loss)	126.5	(13.2)	235.8	262.2
Other income	0.2	0.1	0.2	0.2
Interest and other expenses	<u>(4.7)</u>	<u>(1.4)</u>	<u>(14.6)</u>	<u>(24.8)</u>
Net income/(loss)	122.0	(14.5)	221.4	237.6
Fee payment to Fiscal Reserves*#	(26.3)	(8.3)	(69.8)	(53.8)
Fee payment to HKSAR government funds and statutory bodies*	(12.4)	(4.5)	(11.5)	(9.0)

* The rate of fee payment is 4.7% for 2021, 3.7% for 2020 and 2.9% for 2019.

This does not include the 2021 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2021 is available.

(The composite rate was 12.3% for 2020 and 8.7% for 2019. Fee payable to the Future Fund was HK\$37.2 billion for 2020 and HK\$24.4 billion for 2019.)



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SME FINANCING GUARANTEE SCHEME (SFGS)

- Special 100% Loan Guarantee:
 - As of 30 September 2021, around 43,700 applications were approved, amounting to about HK\$73.3 billion. Around 28,700 applications have chosen the principal moratorium option
 - Application period will be extended by six months to 30 June 2022
- 80% and 90% Guarantee Products:
 - As of 30 September 2021, over 25,600 applications were approved, amounting to about HK\$99.2 billion. Around 1,800 applications have chosen the principal moratorium option
- With effect from 6 October 2021, the maximum duration of principal moratorium under SFGS is extended from 18 months to 24 months; the application period for principal moratorium is extended to end-June 2022
- The Finance Committee of Legislative Council approved an additional loan guarantee commitment of HK\$35 billion under SFGS, thereby increasing the total commitment to HK\$218 billion



PERSONAL LOAN GUARANTEE SCHEME

- As of 30 September 2021, over 31,200 applications were approved, amounting to about HK\$2.2 billion. Average loan size was about HK\$69,400
- The Government announced on 21 September 2021 the extension of the application period of the scheme to end-April 2022



MORTGAGE INSURANCE PROGRAMME (MIP)

- As of 30 September 2020, around 46,500 applications have been approved year-to-date, of which over 36,300 are under the new coverage after the MIP revisions in October 2019. Over 90% of approved applications are from first-time homebuyers
- Principal moratorium or extension of repayment schedules is available to borrowers to help reduce their repayment burden